

## ***Ruling 95-21***

Vermont Department of Taxes

Date: December 13, 1995

Written By: Gloria Hobson, Business Taxes Policy Analyst

Approved By: Earle E. Fennessey, Deputy Commissioner of Taxes

You have requested a ruling on how Vermont sales and use tax applies to the computer equipment purchased for your business. This ruling is based on the facts outlined in your July 5, 1995 letter and our telephone conversation of December 12, 1995.

Issue: Are computer equipment and software used for geographic information systems which produce maps for sale exempt under the manufacturing exemption provided by 32 V.S.A. Section 9741(14)? Are the maps sold by [Taxpayer] subject to sales and use tax?

Facts: [Taxpayer] gathers geographic information, such as soil types, population distributions, topography, road networks, and creates a data base. From this data base, [Taxpayer] produce maps for sales to towns, state officials, and the general public. The purchasers select which data base information is used to produce their maps. The information gathered for the data base is used for making maps for sale at least 90% of the time.

The data base and creation of the maps used specialized geographic information software which used 100% of the time for the purpose of producing maps. The computer where the data base resides is used 100% of the time for the mapping data base and production of maps for sale. A digitizer which also creates data for the maps and a plotter printer are used 100% of the time for production of maps for sale. A laser printer is used approximately 50% of the time for printing maps and 50% of the time for word processing.

Ruling: Vermont allows exemption from the sales and use tax for certain items used in the manufacture of tangible personal property for sale. The tangible personal property that becomes an ingredient or is consumed or destroyed in the process are exempt. Machinery and equipment used exclusively and directly to produce the items for sale are also exempt. The manufacturing exemption does not extend to items used for administration, sales or other nonproduction activities. The term "directly and exclusively" means that the use of machinery and equipment must be devoted to production activities a minimum of 96% of time. 32 VSA Section 9741(14) and Regulation 1.9741(14).

[Taxpayer] makes and sells maps which are generally produced to purchasers' specifications. The production of the maps is the manufacture of tangible personal property for sale and eligible for the manufacturing exemption provided by 32 VSA Section 9741(14). The manufacturing exemption will apply to the computer used for the geographic information data base, the digitizer which creates information for the maps, the plotter which prints maps, and the specialized geographic information software which creates the data base and the map graphics. The laser printer fails the directly and exclusively test as it is used 50% of the time for nonproduction activities.

The maps sold by [Taxpayer] are sales of tangible personal property at retail and will usually be subject to sales tax. Exempt from paying sales on their purchases are Vermont towns, Vermont state agencies, and 501(c)(3) organizations. 32 VSA Section 9743. Also exempt are purchases bought to resell. 32 VSA Section 9701(5). When making an exempt sale, you must obtain a completed and signed certification of exemption form your customer. 32 VSA Section 9745. The exemption certificate is your documentation to justify not collecting the tax and is kept in your business records file. The basis for the sales and use tax is the full amount of the sales price to the purchaser. 32 VSA Section 9701(4). Since you are manufacturing tangible personal property for retail sales, the processes of gathering the information, maintaining the data base and creating the map on the computer cannot be separately invoiced as services from the actual material costs of printing the maps. The focus of the sales transaction is the map and all the processes are part of the cost of manufacturing the map.

This ruling is issued solely to your business and is limited to the facts presented as affected by current statutes and regulations. Other taxpayers may refer to this ruling to determine the Department's general approach, but the Department will not be bound by this ruling in the case of any other taxpayer or in the case of any change in the relevant statute or regulations.